

**BERMUDA LAND DEVELOPMENT
COMPANY LIMITED**

FINANCIAL STATEMENTS

MARCH 31, 2002



Office of the Auditor General

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AUDITOR'S REPORT

To the Shareholders of the Bermuda Land Development Company Limited

I have audited the balance sheet of the Bermuda Land Development Company Limited as at March 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bermuda Land Development Company Limited as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

A handwritten signature in black ink, appearing to read 'L. T. Dennis'.

Hamilton, Bermuda
June 14, 2002

Larry T. Dennis, C.A.
Auditor General

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

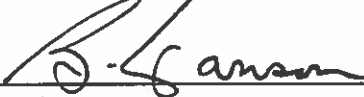
BALANCE SHEET

MARCH 31, 2002
(expressed in Bermuda dollars)

	<u>2002</u>	<u>2001</u>
ASSETS		
Current assets		
Cash and deposits (Note 4)	\$ 12,375,388	\$ 8,650,987
Accounts receivable and recoverable expenses	159,377	521,567
Prepaid expenses	<u>-</u>	<u>7,552</u>
	12,534,765	9,180,106
Capital assets (Note 5)	23,630,734	19,213,713
Capital assets held for resale	<u>133,106</u>	<u>1,601,212</u>
	\$ <u>36,298,605</u>	\$ <u>29,995,031</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	\$ 732,804	\$ 1,125,357
Developer deposits	250,000	250,000
Tenant deposits and deferred revenues	<u>399,756</u>	<u>275,362</u>
	1,382,560	1,650,719
Deferred revenues	2,030,330	1,309,109
Deferred capital contributions (Note 6)	<u>24,753,150</u>	<u>21,231,753</u>
	<u>28,166,040</u>	<u>24,191,581</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	5,000,000	5,000,000
Retained earnings	<u>3,132,565</u>	<u>803,450</u>
	<u>8,132,565</u>	<u>5,803,450</u>
	\$ <u>36,298,605</u>	\$ <u>29,995,031</u>

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:



Director



Director

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

YEAR ENDED MARCH 31, 2002
(expressed in Bermuda dollars)

	<u>2002</u>	<u>2001</u>
Revenues		
Rental income	\$ 2,846,959	\$ 2,477,308
Sale of cottages	2,555,001	2,170,840
Interest and other income	407,662	564,918
Tenant recoveries	<u>401,987</u>	<u>380,677</u>
	<u>6,211,609</u>	<u>5,593,743</u>
Expenses		
Cost of property sales	1,883,221	1,975,062
Salaries and benefits (Note 8)	1,507,902	1,340,405
Repairs and maintenance	979,778	1,203,126
Amortization	609,758	488,449
Utilities (net of recoveries of \$392,124 (2001 - \$1,413,308))	453,690	393,700
Security	314,388	423,942
General and administrative	259,357	278,788
Insurance	222,918	201,183
Leasing and marketing	70,085	153,310
Bad debts	<u>60,000</u>	<u>40,000</u>
	<u>6,361,097</u>	<u>6,497,965</u>
Net loss before the undernoted item	(149,488)	(904,222)
Amortization of deferred capital contributions (Note 6)	<u>2,478,603</u>	<u>2,449,329</u>
Net income	2,329,115	1,545,107
Retained earnings (deficit), beginning of year	<u>803,450</u>	<u>(741,657)</u>
Retained earnings, end of year	\$ <u><u>3,132,565</u></u>	\$ <u><u>803,450</u></u>

The accompanying notes are an integral part of these financial statements.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2002
(expressed in Bermuda dollars)

	<u>2002</u>	<u>2001</u>
Operating activities:		
Net income	\$ 2,329,115	\$ 1,545,107
Items not affecting cash		
Amortization of capital assets	609,758	488,449
Amortization of deferred capital contributions	(2,478,603)	(2,449,329)
Gain on sale of capital assets held for resale	(686,158)	(210,094)
Changes in non-cash items		
Accounts receivable	362,190	(258,368)
Prepaid expenses	7,552	214,242
Accounts payable and accrued charges	(392,553)	(368,883)
Developer deposits	-	(1,500)
Tenant deposits and deferred revenues	<u>845,615</u>	<u>1,379,201</u>
	<u>596,916</u>	<u>338,825</u>
Investing activities:		
Purchase of capital assets	(5,026,779)	(3,672,362)
Purchase of capital assets held for resale	(400,737)	(2,070,717)
Proceeds from sale of capital assets held for resale	<u>2,555,001</u>	<u>2,170,840</u>
	<u>(2,872,515)</u>	<u>(3,572,239)</u>
Financing activity:		
Capital contribution from the Government of Bermuda (Note 6)	<u>6,000,000</u>	<u>6,500,000</u>
Net increase in cash and deposits	3,724,401	3,266,586
Cash and deposits, beginning of year	<u>8,650,987</u>	<u>5,384,401</u>
Cash and deposits, end of year	\$ <u>12,375,388</u>	\$ <u>8,650,987</u>

The accompanying notes are an integral part of these financial statements.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2002

(expressed in Bermuda dollars)

	<u>2002</u>	<u>2001</u>
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Cash and deposits, end of year	\$ <u>12,375,388</u>	\$ <u>8,650,987</u>

The accompanying notes are an integral part of these financial statements.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2002
(expressed in Bermuda dollars)

1. Nature of business

The Bermuda Land Development Company Limited (the "Company") was incorporated under the authority of The Base Lands Development Act 1996 (the "Act") on November 12, 1996. The shares of the Company are held by the Minister of Works & Engineering and the Minister of Finance in trust for the benefit of the country.

The general purpose of the Company is to manage and develop the land entrusted to it. It will do this in a manner that will integrate the land into the economic and social fabric of Bermuda and create opportunities for increased employment now and in the future.

2. Economic dependence

The Company will require significant funding for environmental remediation, construction of infrastructure, demolition of unsafe and uneconomic structures, renovation of viable existing structures and construction of new facilities. The Company is dependent on Government funding to achieve its development goals and to become financially self-sufficient.

3. Summary of significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. For financial reporting purposes, the Company is classified as a government business-type organization and has adopted accounting policies appropriate for this classification. Those policies considered particularly significant are set out below:

(a) Grants from the Government of Bermuda

Capital grants received from the Government for the purpose of capital developments are shown as capital grants and are deferred and taken into income on the same basis as the amortization of the related capital asset.

(b) Capital assets held for resale

Capital assets held for resale represents houses held for future sale. The inventory is valued at cost that includes direct costs associated with the renovation of the properties.

(c) Capital assets

Capital assets are valued at cost. Costs incurred by the Company for improvements to buildings and infrastructure, purchase of equipment, site preparation and demolition are capitalized.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2002
(expressed in Bermuda dollars)

3. Summary of significant accounting policies, cont'd.

Amortization is calculated using the straight-line basis over the estimated useful lives at the following rates:

Infrastructure	5 to 10 years
Equipment	3 to 5 years
Buildings	5 to 20 years

Amortization has not yet been charged against site preparation costs, which include costs to clear land and demolish obsolete structures as these costs were necessary to bring the property into condition for future development. It is the intention of the Company to amortize these costs over the estimated useful life of each of the properties once development is completed.

No carrying value has been assigned to land, buildings and assets assumed by the Company as these assets are included as part of the lease (Note 9(a)) and are not capitalized.

(d) Financial assets and liabilities

The estimated fair value of the Company's financial instruments which include cash and deposits, accounts receivable and recoverable expenses, accounts payable and accrued charges, deposits and deferred revenues approximate their carrying value.

(e) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reported period. Actual results could differ from these estimates.

(f) Revenue from the sale of houses and properties

The Company renovates houses and properties and leases them for a period of 125 years. All proceeds from the lease are received at the time the lease agreement is executed. The long-term leases are treated as sales.

(g) Tenant recoveries

Common area expenses recovered from tenants are shown as revenue. Other recoveries such as water, electricity and telephone are netted against the corresponding expense.

4. Restricted cash

At March 31, 2002, the Company had \$292,435 (2001 - \$288,098) of restricted cash deposits. Of this, \$724 (2001 - \$4,790) relates to deposits on cottage sales not yet completed. The remaining \$291,711 (2001 - \$283,308) is in respect of cottages sold. The cash is held on deposit with various mortgage lenders to guarantee a portion of the purchasers mortgage value.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2002
(expressed in Bermuda dollars)

5. Capital assets

Capital assets are comprised of:

	<u>2002</u>			<u>2001</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Site preparation	\$ 15,168,428	\$ -	\$ 15,168,428	\$ 11,692,611
Infrastructure	2,268,593	780,226	1,488,367	1,456,195
Equipment	730,688	492,270	238,418	286,927
Buildings	<u>7,396,273</u>	<u>660,752</u>	<u>6,735,521</u>	<u>5,777,980</u>
	\$ <u>25,563,982</u>	\$ <u>1,933,248</u>	\$ <u>23,630,734</u>	\$ <u>19,213,713</u>

6. Capital grants from the Government of Bermuda

Capital grants represent the aggregate amount of capital grants received from the Government of Bermuda less amounts amortized to income and are comprised of:

	<u>2002</u>	<u>2001</u>
Balance, beginning of year	\$ 21,231,753	\$ 17,181,082
Capital grant received	6,000,000	6,500,000
Housing sales amortization	(1,868,845)	(1,960,880)
Capital grant amortization	<u>(609,758)</u>	<u>(488,449)</u>
Balance, end of year	\$ <u>24,753,150</u>	\$ <u>21,231,753</u>

7. Share capital

	<u>2002</u>	<u>2001</u>
Authorised and issued: 10,000,000 common shares of \$1 par value each	\$ <u>10,000,000</u>	\$ <u>10,000,000</u>
50% called and fully paid in cash	\$ <u>5,000,000</u>	\$ <u>5,000,000</u>

Upon incorporation the Company issued 10,000,000 common shares, of which 50% were called and paid.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2002
(expressed in Bermuda dollars)

8. Pension

The Company has a defined contribution pension plan. Employees join after three months with the Company and contributions levels are 5% of gross salary, which is matched by the Company. The pension expense to the Company for the year, included in salaries and benefits was \$49,774 (2001 - \$38,324).

9. Contingencies and commitments

(a) On May 13, 1997, the Company entered into a lease for a period of 131 years. The lease is effective from the Company's date of incorporation on November 12, 1996 and includes the four properties known as the Southside, St. David's (formerly the US Naval Air Station, excluding the airport), the Naval Annex in Southampton, Daniel's Head in Sandys and the Operating Base at Tudor Hill in Southampton including all buildings as described in detail in the schedule which forms part of the lease. The rent for the whole period is \$131 and has been paid.

(b) The Base Lands Development Act 1996 (the "Act") provides certain assurances with respect to the scheduled lands including that the Government owns the land in fee simple, absolute in possession and holds the Company harmless for any losses relating to pollution or contamination of the land which existed prior to the commencement of the Act on September 20, 1996.

(c) At March 31, 2002, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$6,278,000.

The Company was also committed to service contracts for security and facilities maintenance for the various properties totaling approximately \$271,000.

(d) The Legislature has approved \$1,000,000 in capital grants for the fiscal year ending March 31, 2003.

10. Related party transactions

The Company is related in terms of common ownership to all Government of Bermuda departments and agencies. The Company enters into transactions with these entities in the normal course of business. During the year ended March 31, 2002, the Company earned rental and other revenues in the amount of \$1,171,000 (2001 - \$1,378,000) from various Government departments and agencies. At March 31, 2002, net amounts outstanding to various Government departments and agencies totaled \$26,000 (2001 - \$29,000) and have been included in accounts payable and accounts receivable.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2002
(expressed in Bermuda dollars)

10. Related party transactions, cont'd.

During the year ended March 31, 2002, the Company purchased goods and services in the amount of \$32,000 (2001 - \$69,000) from other related parties and earned rental revenues in the amount of \$33,000 (2001 - \$22,000). At March 31, 2002, accounts receivable were \$14,000 (2001 - \$11,000).

11. Comparative figures

Certain comparative figures have been reclassified to conform to current presentation.